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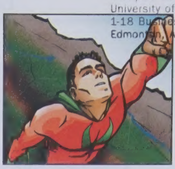

Mainstreet expansion
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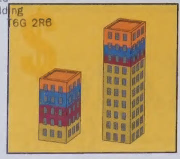

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The Mainstreet Review

MAINSTREET EQUITY CORP. 2003 ANNUAL REPORT 6TH EDITION

MEQ's funds from operations up 81% in 2003

RETURN ON EQUITY 49%

INTEREST COVERAGE RATIO 1.8

INSIDE

The Annual General Meeting of shareholders of Mainstreet Equity Corp. will be held on March 25, 2004 at 9:00 a.m., in the offices of Warren Tettensor law firm, 1413 – 2 St. SW, Calgary, Alberta.

403.215.6060

www.mainst.biz

Mainstreet Equity Corp. announces 2003 results

The year 2003 brought its share of challenges to Mainstreet Equity: rising tenant vacancy rates, high operating costs and a large oversupply of condominiums on the rental market. And yet, in spite of this market turbulence, the company continued to generate positive financial and operating results.

Financial results

- 13% increase in rental revenue to \$17.1 million, from \$15.2 million in 2002
- 0.6% increase in net operating income to \$10.8 million, from \$10.7 million in 2002
- 81% growth in FFO[1] to \$5.5 million (after gains from property disposition), from \$3 million in 2002
- 22% decrease in FFO to \$2.3 million (before gains from property disposition), from \$3 million in 2002
- 273% increase in net income to \$2.6 million (after gains from property disposition), from \$0.7 million in 2002
- net loss of \$0.5 million (before gains from property disposition), compared with net income of \$0.7 million in 2002

Portfolio growth

- total acquisition of 513 units for \$36 million
- 14% growth in portfolio to 2,606 units, from 2,280 in 2002
- expansion into Greater Toronto Area, with purchase of 322 units for \$25 million

Financing

- \$43 million in mortgage loans converted to long-term Canada Mortgage and Housing Corporation (CMHC)-insured loans
- average interest rate on these CMHC-insured loans – 4.87%, compared with 7.15% before refinancing
- overall weighted average interest rate on debt – 5.61%, compared with 6.65% in 2002

Per share results

- 81% increase in FFO per share to \$0.60 (after gains from property disposition), from \$0.33 in 2002
- 22% decrease in FFO per share of \$0.26 (before gains from property disposition), from \$0.33 in 2002
- 252% increase in net income per share to \$0.28 (after gains from property disposition), from \$0.08 in 2002
- net loss of \$0.06 per share (before gains from property disposition), compared with net income per share of \$0.08 in 2002

[1] Funds from operations (FFO) is calculated as net earnings before depreciation of real estate properties and future income taxes, excluding gain in early redemption of debenture. Readers are cautioned that FFO may be different from similar calculations used by other comparable entities.

Mainstreet enters Toronto market

When asked why Calgary-based Mainstreet Equity is expanding into the Toronto market, president and CEO Bob Dhillon sums up his company's ambitious growth plans with one word: **OPPORTUNITY.**

"Now is a great time to position our company in Toronto, one of Canada's most dynamic rental markets," says Dhillon of the company's decision in 2003 to purchase two high-rise complexes, totalling 322 units, for \$25 million in Toronto and Mississauga, Ontario.

Up until now, the six-year-old company has built a proven track record by sticking to its Western roots, buying and operating mid-sized, mid-tiered multi-family residential properties in Edmonton, Calgary and Red Deer and expanding into lower Vancouver mainland in 2002.

What prompted this change in focus?

Dhillon says the company's decision to "go national" was timed to take advantage of growth opportunities he sees emerging in Ontario's rental markets.

"Toronto is part of Canada's largest economy, explains Dhillon. "Plus, it offers a large rental market and unit count, a significant pattern of immigration, a large pool of buildings and excellent opportunities to add value. We see a lot of upside potential for Mainstreet in this market."

According to Dhillon, the company's investments will continue to be anchored in Alberta, which currently accounts for 80% of its units. But next year the company plans to gradually decrease this share with more acquisitions planned for the Toronto and Vancouver areas.

"These efforts will help to further diversify and rebalance Mainstreet's portfolio in some of the most important urban markets across Canada," he says.

Letter from the president

Dear Shareholders,

We look back on 2003 as both a difficult and pivotal year for our company.

The challenges during the year demanded much determination from our management team. Rising tenant vacancy rates. Volatile energy and utility costs. A large oversupply of condominiums. And with interest rates dropping to a 40-year low, more tenants became first-time homebuyers and exited the rental market.

And yet, in the face of this market turbulence, I'm proud to report that we still generated positive cash flow.

What we accomplished in 2003

You'll find more details on our performance later in this report, but here's a summary:

- Our company's funds from operations per share were $0.60 after gains from property disposition and $0.26 per share before gains. This is not as high as hoped for, but it shows how we have continued to maintain steady cash flow — a key performance measure in our industry.
- We increased our rental revenue by 13% to $17.1 million from

$15.2 million. Although our overall rental occupancy slipped somewhat from 91% to 89%, we still delivered steady revenue growth, thanks to our presence in higher rental markets like Vancouver lower mainland and the Greater Toronto Area.
- We spent $36 million to acquire properties in Calgary and the Greater Toronto Area, which, in keeping with our business criteria, we purchased for below replacement costs. We're especially pleased with our new properties in Toronto and Mississauga, Ontario, which provide an "entry strategy" into a rental market that's part of the largest economy in Canada.
- We redeemed a $1 million, 10% debenture at a discount price of $850,000.

Tough economic times test even the best business model. And these results show that our strategic focus — owning and managing multi-family residential properties in Canada's most dynamic urban markets — continues to be the right one, enabling us to create shareholder value, regardless of the market conditions.

So, what can you expect from our company in 2004?

I've always believed in the cyclical nature of the real estate business. It's a view that's shared by others in the industry, including the Canada Mortgage and Housing Corporation (CMHC). Recently the CMHC forecast modest increases for 2004 in rental rates in Edmonton, Calgary, Vancouver and a relatively constant rate in Toronto — all of which are core geographic markets for our company.

It's always difficult to predict the future, especially when markets are concerned, but I'm anticipating modest but important improvement in the multi-family rental market over the next 12 months. As this market gradually readjusts, we've taken steps to stay ahead of the curve, embarking on a strategy to improve cash flow, reduce the level of business risk and enhance the value of our portfolio.

Growth opportunities shouldn't end when your market shifts — if you're soundly financed. And that's what we've attempted to do — build a business that weathers changing economic cycles.

The cost of servicing long-term debt is our biggest operating expense. And since sustainable cash flows are a key to long-term success in our business, we've worked hard to improve our cash flow and strengthen financial stability. In 2003, we did this by converting $43 million in higher cost mortgage loans into CMHC-insured debt at 4.87%. As a result, Mainstreet will benefit from longer-term loans at more advantageous interest rates.

But increasing and protecting our cash flow has only been part of our focus over the last year.

As regional economies respond to different forces and market expectations, managing geographic risk in our business becomes even more important. About 80% of our units are in Edmonton and Calgary. While we like the upside potential we see in these markets — robust economies, population growth and appreciating real estate — we're looking to grow our portfolio in other major Canadian cities for additional diversification. Our goal for year-end 2004 is to continue expanding in the Vancouver and Toronto markets, thereby reducing the historical focus of our portfolio in Alberta. This will enhance our revenue growth opportunities and diversify our market risks.

In 2003, we carried out an ambitious $3.4 million renovation program. There will always be peaks and valleys as vacancy rates increase and revenues drop from these self-induced activities. But in our view, the short-term pains of upgrading our existing properties are worth the long-term gains. Our 2003 renovations program is now substantially completed (to date nearly 80% of our existing properties have been renovated to our brand standards) and renovated vacant units are being placed back on the market at increased rental rates.

All of these steps prepare Mainstreet for changing economic times and enhance our ability to deliver growth in shareholder value.

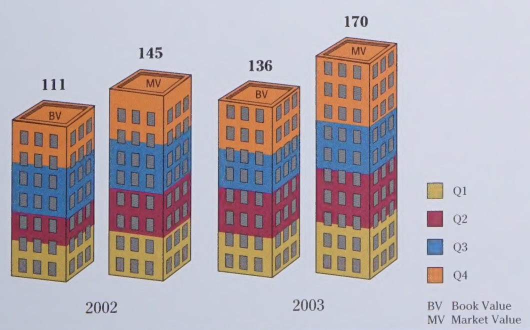
And we plan to build on these efforts. Over the next year, we will continue to acquire underperforming properties and add value to our assets. Working to further limit financing risk through new longer-term CMHC-insured loans remains a priority. We will also implement initiatives across our portfolio to improve operating efficiencies and tenant occupancy levels. And we will seek new acquisitions that allow us to add value and expand in our core geographic markets.

We're ready to launch Mainstreet into an important and exciting new stage of our company's development. I look forward to providing you with updates on our continued progress over the next year.

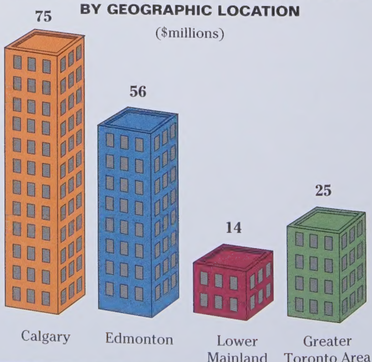
On behalf of the Board,

Bob Dhillon,
President and CEO
February 13, 2004

VALUE OF REAL ESTATE PROPERTIES
($millions)



MARKET VALUE OF REAL ESTATE PROPERTIES BY GEOGRAPHIC LOCATION
($millions)



Market turmoil or new opportunity for growth?

In this interview, Mainstreet's President and CEO Bob Dhillon addresses questions about the current business environment and the company's opportunities for future growth.

Q As of September 30, 2003, Mainstreet had outstanding mortgages of $130 million and a real estate portfolio of $136 million on its balance sheet. Mainstreet seems to be highly leveraged on the books in terms of the balance sheet. Is this cause for concern?

A No. The financial statements appear to have very high leverage levels, because they're prepared in strict accordance with Generally Accepted Accounting Principles (GAAP). Under these standards, buildings are recorded at their historical net book values only. But, in fact, refinancing of mortgage loans in our business is always based on the current market value of properties, as determined by independent, third-party appraisals.

For example, a building we bought in 1999 for $10 million is now worth $17.5 million on the open market. In 2003, we refinanced this property based on 75% of the market value for a loan of $13.4 million. Because the asset still is recorded on the balance sheet at $10 million, its original purchase price, this transaction appears on the books at a leverage level of 134%. So obviously this can be misleading.

To sum up, we've been able to successfully refinance with higher debt because the market value of our buildings has grown significantly through our company's Value Chain philosophy. Currently, we estimate the market value of our portfolio to be about $170 million. A sign of this increased market value was the fact that during 2003 we sold one of our Calgary properties, which has a book value of $13 million, for $16.8 million, realizing a net gain of $3.8 million.

Q With Mainstreet reporting a net loss of $0.5 million (before gains from property disposition), what does this mean to your financial performance?

A In our business, the key measurement is funds from operations (FFO), not earnings. The past year was a challenging time for our business and our company. But even so, we still delivered stable cash flow, with FFO of $0.60 per share after gains from property disposition and with FFO of $0.26 per share before gains.

Q Given that 2003 was a difficult year, is it still a good time to invest in the multi-family real estate market?

A Yes. Obviously, given the softening of the rental market over the last year, some may perceive the multi-family market as a bad investment right now. But the reality is that it's actually a better time to invest, and I say this for four key reasons.

First, based on historic trends and industry statistics, we expect the rental market to slowly readjust and improve. The latest CMHC forecasts project rental increases for 2004 of 3% in Edmonton, 2.5% in Calgary, 2% in Vancouver and a relatively constant rate in Toronto. This is positive news for the multi-family rental market.

Second, the multi-family market remains highly fragmented. In our market niche — mid-sized, mid-tiered buildings — there remain significant opportunities to acquire properties at below replacement costs and add value to buildings.

Third — and this is a related point — new opportunities arise when there's turmoil in the marketplace. With high vacancies and rising operating costs, which in turn reduce cash flow in the market, there are more opportunities to buy high-potential rental properties at reduced prices and to add value. When market conditions are soft, it's always a good time to reinvest.

Fourth, rates are at a 40-year low. This provides an important opportunity in servicing debt, our biggest operating cost.

Mainstreet is well positioned to grow in this environment, because of our experience, access to capital and our acquisition expertise. Our business philosophy of providing standardized, renovated, professionally managed suites provides a service to this segment that is typically neglected.

Q About 80% of Mainstreet's portfolio is still focused in Alberta. Don't you face the risk of limited geographic diversification?

A We're aware of that risk. Our key Alberta markets — Edmonton and Calgary — have strong economies and population growth. We like what we see in terms of our business growth in these regions, but we're still looking for additional growth in other major Canadian urban centres, like Vancouver lower mainland and the Greater Toronto Area. By adding units in these markets that fit our criteria and can be purchased at below replacement value, we will diversify our portfolio risk and market concentration by the end of next year.

Q More specifically, what led Mainstreet to enter the Toronto market in 2003?

A Basically four reasons: a large rental market and unit count, a significant pattern of immigration to the Greater Toronto Area (with many of these people choosing rental accommodations), a large pool of buildings and excellent opportunities to add value. All of these spell opportunity for Mainstreet. So we think now is a great time to position our company in Toronto.

Q What do you see for Mainstreet in 2004?

A We're now well established in terms of human resources, physical infrastructure, information systems and sourcing relationships in our four core geographic markets. So, as the market readjusts, we're anticipating a new stage of growth for our company.

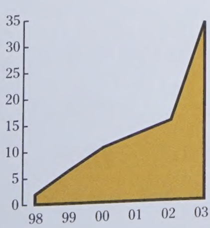
Corporate profile

Mainstreet Equity is a Canadian real estate company focused on acquiring and managing multi-family residential rental properties. The Company buys undervalued residential units, enhances their value through renovations and improved operating efficiencies, and occasionally sells them to redirect capital into new, higher potential properties.

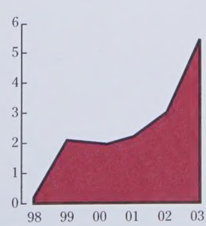
Founded in 1997, Mainstreet owns, operates and maintains its entire portfolio of more than 2,600 properties, which are geographically diversified throughout lower Vancouver mainland, Calgary, Edmonton, Red Deer, Toronto and Mississauga, Ontario.

Mainstreet is listed on the Toronto Stock Exchange and trades under the symbol "MEQ."

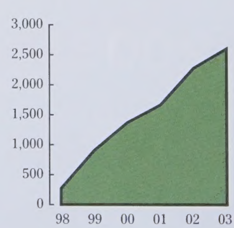
REVENUE
($millions)



FUNDS FROM OPERATIONS
($millions)



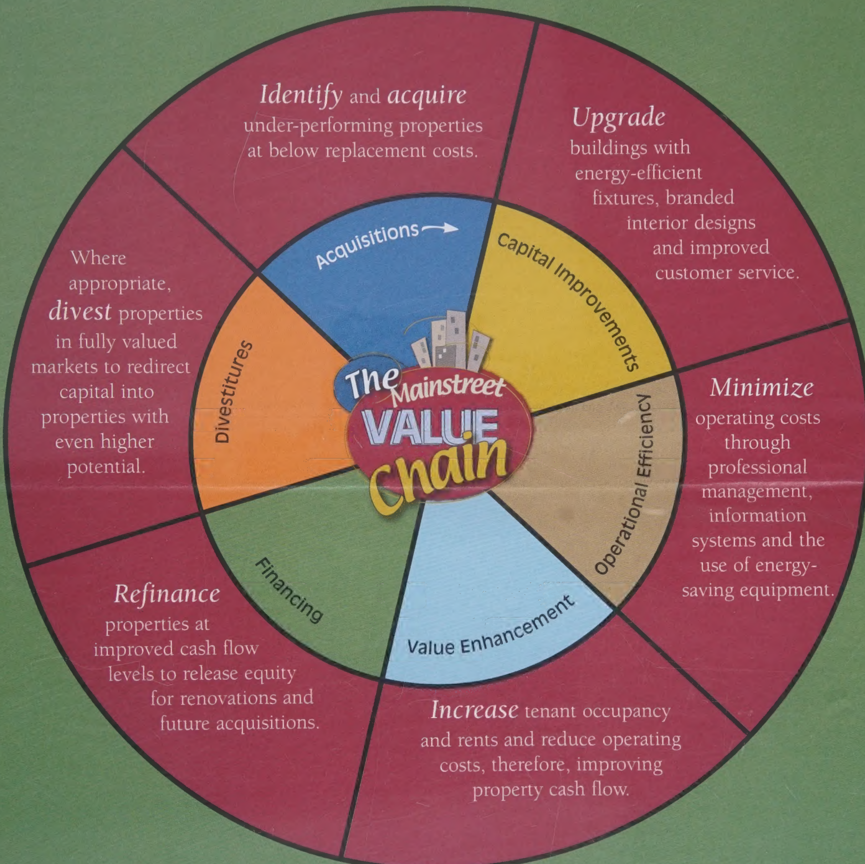
TOTAL NUMBER OF UNITS



The Mainstreet Value Chain

ONE OF OUR COMPANY'S GREATEST STRENGTHS IS OUR VALUE CHAIN PHILOSOPHY!

By pursuing this philosophy, we enable Mainstreet to not only adapt to our changing real estate marketplace, but to quickly capitalize on emerging growth opportunities!



Six Years of Success Proves that it Works!

In 2003, the company's renovation program enabled Mainstreet to enter 14% of its portfolio onto the market at higher rents.

Mainstreet properties as at January 31, 2004

Calgary, AB 1027 units

Trevella Park, 1300 – 41 St. SE, 218 units. Newly renovated two and three bedroom townhomes. Surrounded by three schools. Inner city with acres and acres of land. The jewel of South East.

Falconcrest Village, 360 Falshire Dr. NE, 176 units. Renovated one and two bedroom apartments. Dishwashers! Minutes to airport and Peter Lougheed Hospital.

Doverglen Estates, 216 Doverglen Cr. SE, 97 units. One and two bedroom apartments, 4 km east of downtown Calgary. Access to Deerfoot and Barlow Trail. Outstanding mountain views!

WOW!

Avenue Towers, 333 – 17 Ave. SW, 77 units. Bachelor and one bedroom apartments. LOFT suites. Funky open concept with concrete treated floors or hardwood floors. New modern cabinets, appliances, lighting and colours. Located on trendy 17th avenue!

Acadia Place, 331/333 – Heritage Dr. SE, 57 units. One, two and three bedroom apartments. HARDWOOD floors, renovated suites with new appliances, blinds and paint. Located close to schools, shopping and bus routes.

Mainstreet Place, 1122 – 8 Ave. SW, 50 units. Located in the heart of downtown and totally renovated in 1999.

Delburn House, 1419 – 17 Ave. NW, 47 units. One and two bedroom apartments. Across from SAIT. Renovated with new appliances, carpet, paint and lino. New hallway carpet and finishing.

White Plains, 2620 – 16 St. SW, 34 units. VIEW! VIEW! VIEW! One and two bedroom apartments. Renovated suites with TILE floors. Located in the Bankview area near Alberta Children's Hospital and 5 minutes from downtown.

The Westwinds, 211 – 14 Ave. SW, 32 units. Great downtown location!!! Close to parks and recreational facilities.

The Wilmax, 1212 – 13 Ave. SW, 30 units. A short walk to trendy 17th avenue.

Bankview Place, 1715 – 24 Ave. SW, 24 units. Close to 17th avenue, downtown, major bus routes, and across from a park.

Chinook Winds, 707 – 57 Ave. SW, 24 units. Property renovated in 1999 with 1 & 2 bedroom apartments.

1612, 1612 – 24 Ave. SW, 24 units. Located near bus routes and recreational facilities.

Westview Terrace, 1611 – 23 Ave. SW, 24 units. Across from a park.

Calgary, AB

Lincoln, 2111 & 2107 – 54 Ave. SW, 23 units. 1 block from North Glenmore Park Community Centre.

North Hill Manor, 305 – 13 Ave. NE, 23 units. Close to Edmonton Trail, 5 min. from downtown.

Spring Garden Terrace, 1723 – 26 Ave. SW, 21 units. One and two bedroom apartments. Located in the Bankview area, close to 14th street. Five minutes from downtown. Renovated suites have large balconies with a great southern view.

Grace Manor, 1639 – 26 Ave. SW, 18 units. One and two bedroom apartments. Wow! brand new renovation with hardwood floors, new balconies and exterior colours.

Westbrook Manor, 937 – 37 St. SW, 18 units. Across from Westbrook Mall; close to many restaurants and commercial shops.

2501, 2501 – 16 St. SW, 10 units. Only a couple of blocks away from transit, in the Bankview community.

Edmonton, AB 987 units

Wedgewood Homes, 12267 – 129 A St., 132 units. Two and three bedroom townhomes. Renovated suites new flooring, appliance, paint, base and lighting. Washer and dryer hookups.

Clareview Court, 3830 – 134 Ave., 86 units. Bachelor, two and three bedroom townhomes. Renovated suites with new flooring, appliances, paint, base, lighting, and siding. Washer and dryer hookups.

McCam 2, 10325 – 123 St., 66 units. Easy access to central business district, grocery stores, pharmacies, and close to a municipal golf course.

Riverside Estates, 9209 – 9315 Jasper Ave., 66 units. Bachelor, one and two bedroom apartments. Great location along Jasper Avenue. New HARDWOOD! Completely new hallways, new bathrooms, kitchens, paint, appliances, microwave, base and tile.

Thunderbird, 10720 – 104 St., 62 units. Bachelor, one and two bedroom apartments. Close to Grant MacEwan College. Renovated hallways, new flooring, appliances, and widow coverings.

Lauderdale Manor, 10504 Lauder Ave., 39 units. Three bedroom townhomes. Renovated suites with new flooring appliances, paint, base, and lighting. Washer and dryer hookups.

Edmonton, AB

Edm 18, 10730 – 111 St., 33 units. Bachelor, one and two bedroom apartments. Close to Grant MacEwan College. New siding on building. Great renovations in hallways and suites. New appliances, flooring, paint, baseboard, bathrooms and countertops.

McCam 1, 10330 – 123 St., 33 units. Walking and cycling paths, golf course nearby.

GREAT DEAL!

McCam 4, 10235 – 123 St., 33 units. Bachelor, one and two bedroom apartments. Great Oliver location. Walk to downtown and live in a wonderful neighborhood. Renovated suites. New flooring, paint, lighting, base and hallways.

Edm 5, 11416 – 124 St., 33 units. Bachelor, one and two bedroom apartments. Renovated hallways. New flooring, paint, bathrooms, baseboard, lighting and appliances. Convenient access to downtown district and The University of Alberta.

Edm 2, 14224 McQueen Road, 27 units. Bachelor, one and two bedroom apartments. Suites have new flooring, paint, countertops, appliances, and bathrooms.

Edm 17, 10835 – 115 St., 26 units. The BEST rental accommodations in the area!

Elizabeth Manor, 11334 – 124 St., 25 units. Bachelor, one and two bedroom apartments. Great location on 124th Street. HARDWOOD FLOORS. Renovated hallways. New flooring, paint, bathrooms, base, lighting and appliances.

Edm 13, 7107 – 79 Ave., 24 units.

Edm 14, 7108 – 78 Ave., 24 units.

Edm 11, 10710 – 111 St., 22 units.

Edm 12, 10720 – 111 St., 22 units.

Edm 15, 10325 – 117 St., 22 units. All suites have been extensively renovated, including flooring, lighting, painting, appliances and window coverings.

Edm 16, 10316 – 119 St., 22 units.

Edm 20, 10610 – 106 St., 22 units.

McCam 3, 10320 – 123 St., 22 units.

Edm 7, 11906 – 104 St., 21 units. Close to NAIT and Kingsway Garden Mall.

Edm 8, 11937 – 105 St., 21 units.

Edm 9, 11919 – 105 St., 21 units. Excellent access to bus routes and major roadways.

Edm 21, 10730 – 109 St., 20 units.

Edm 19, 10634 – 113 St., 17 units.

Edmonton, AB

Pride, 13608 – 109A Ave., 17 units. Bachelor, one and two bedroom apartments. Great location in a quiet neighborhood. Renovated hallways. New HARDWOOD floors, paint, bathrooms, baseboard, lighting and appliances.

Edm 10, 10416 – 119 Ave., 15 units. Bachelor, one and two bedroom apartments. Walk to NAIT. New siding on building. New hallway renovations. Suites have new flooring, paint, countertops, lighting, bathrooms and baseboard.

Cedar Wood Arms, 10614 – 122 St., 14 units. One and two bedroom apartments. Great location in quiet neighborhood. Renovated hallways. New flooring, paint, bathrooms, baseboard, lighting and appliances in the suites.

Red Deer, AB 66 units

Highland Terrace, 3916, 3920, 3924 – 50 Ave, 66 units. Bachelor, one, two and four bedroom apartments. Great location next to the hospital. Renovated suites with new flooring, countertops, bathrooms, paint, window coverings and lights.

Surrey, BC 204 units

Imperial, 9555 – 128 Street., 204 units. One, two and three bedroom apartments. Fantastic renovations with new hallway carpet, laundry facilities, lights and finishing. Suites have hardwood and carpet flooring. New tile, countertop, DISHWASHERS, lighting upgrade, bathroom, window coverings, and paint.

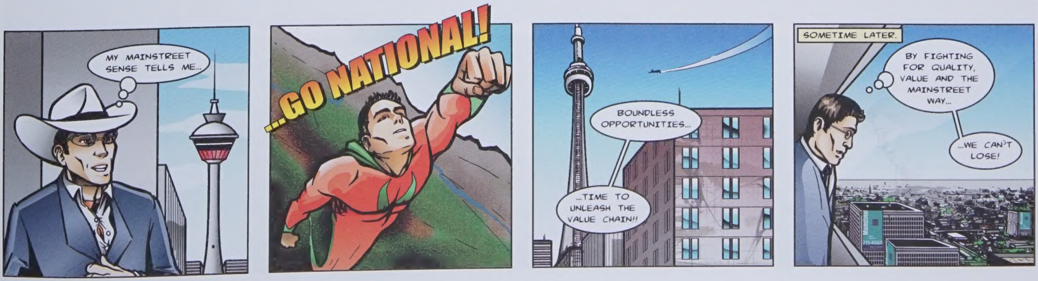
Toronto Area, ON 322 units

NEW!

Westdale Apartments, 1175 West Dundas Street, Mississauga, 104 units. Close to Credit River and Erindale park as well as the Mississauga and Credit River Golf and Country Clubs.

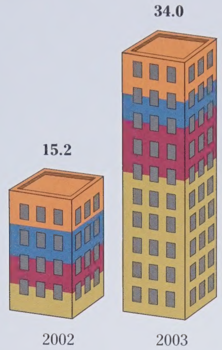
Caravelle Apartments, 5 Dufresne Court, Toronto, 218 units. Located in the city of Toronto, minutes from the heart of downtown. Excellent views of downtown Toronto. Suites are spacious and newly renovated.

Mainstreet continues expansion...

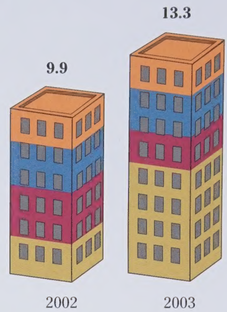


Financial highlights

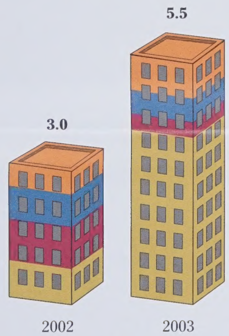
REVENUE
($millions)



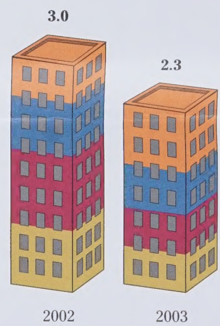
EBITDA
($millions)



FUNDS FROM OPERATIONS
($millions)



FUNDS FROM RENTAL OPERATIONS
($millions)



Q1 Q2 Q3 Q4

Financial results

	2003	2002	% Change
Net operating income[1] (000s)	$ **10,845**	$ 10,784	0.6
Net operating margin from rental operations (%)	**63**	71	(11)
Funds from operations (000s)			
• after gains from property disposition	**5,451**	3,016	81
• before gains from property disposition	**2,339**	3,016	(22)
Net income (000s)			
• after gains from property disposition	**2,575**	0.690	273
• before gains from property disposition	$ **(0.537)**	$ 0.690	(178)

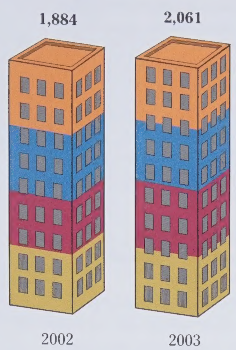
1. Net operating income is rental income minus property operating expenses.

Results per share

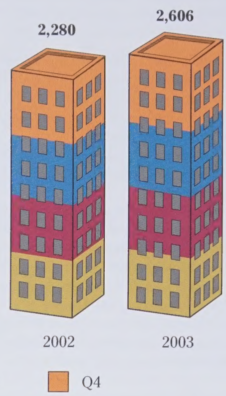
	2003	2002	% Change
Funds from operations per share			
• after gains from property disposition	$ **0.60**	$ 0.33	81
• before gains from property disposition	**0.26**	0.33	(22)
Net income per share			
• after gains from property disposition	**0.28**	0.08	252
• before gains from property disposition	**(0.06)**	0.08	(173)
EBITDA per share	$ **1.46**	$ 1.09	33

Operational highlights

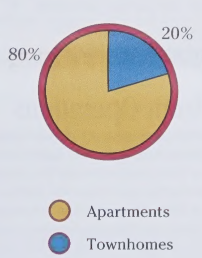
TOTAL SQUARE FEET
(thousands)



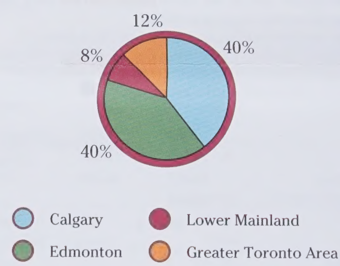
TOTAL NUMBER OF UNITS



ASSET PORTFOLIO



GEOGRAPHIC LOCATIONS



Rental revenues by provinces

		2003		2002	% Change
Alberta					
Rental revenue (000s)	$	**15,015**	$	14,638	3
Weighted average number of units		**2,050**		1,977	4
Average rental rate per unit per month	$	**610**	$	617	(1)
Weighted average square feet (000s)		**1,556**		1,561	(0.3)
Average rental rate per square foot per month	$	**0.80**	$	0.78	3
British Columbia					
Rental revenue (000s)	$	**1,336**	$	550	143
Weighted average number of units		**204**		77	165
Average rental rate per unit per month	$	**546**	$	595	(8)
Weighted average square feet (000s)		**245**		92	166
Average rental rate per square foot per month	$	**0.45**	$	0.50	(10)
Ontario					
Rental revenue (000s)	$	**766**		–	–
Weighted average number of units		**70**		–	–
Average rental rate per unit per month	$	**912**		–	–
Weighted average square feet (000s)		**141**		–	–
Average rental rate per square foot per month	$	**0.45**		–	–

Management's discussion and analysis

The following discussion and analysis reviews Mainstreet Equity's operations and financial condition for year-end September 30, 2003. The results from fiscal year 2003 are directly comparable with those from fiscal year 2002. This section should be read in conjunction with the company's audited financial statements and the accompanying notes included in this annual report.

Overview

Mainstreet Equity Corp. is a Canadian real estate company focused on acquiring and managing multi-family residential rental properties. The Company buys undervalued residential units, enhances the value through renovations and improved operating efficiencies, and occasionally sells them to redirect capital into new, higher potential properties.

The Company's goal is to create and capture value for shareholders, regardless of capital and market conditions – a strategy Mainstreet has successfully followed since its launch in 1997.

Mainstreet's portfolio of more than 2,600 units is well diversified, throughout Vancouver lower mainland, Calgary, Edmonton, Red Deer, Toronto and Mississauga, Ontario. This portfolio consists of townhouses, garden-style apartments and mid-rise and high-rise apartments. The Company owns, operates and maintains these properties, which together represent about 2.1 million square feet. The head office is in Calgary, Alberta.

In 2003, the Company generated funds from operations of $5.5 million or $0.60 per share (after gains from property disposition) and $2.3 million or $0.26 per share (before gains). The overall occupancy level was 89%, slightly down from 91% in 2002.

Mainstreet is listed on the Toronto Stock Exchange and trades under the symbol "MEQ."

Revenue

Mainstreet's operations generate gross revenue from two separate sources: rental operations and the periodic sale of real estate properties. The most consistent source of income comes from rental operations.

In 2003, gross revenue was $34.0 million, compared with $15.2 million in 2002. Rental revenue was $17.1 million in 2003, compared with $15.2 million in 2002. As the business benefits from the full impact of this year's acquisitions, the Company expects rental revenue to further improve in 2004.

REVENUE

(S000s)	2003	2002	% change
Gross revenue	$ **34,010**	$ 15,238	123
Rental revenue	**17,117**	15,188	13
Property dispositions	**16,800**	–	–
Interest income	$ **93**	$ 50	86

Rental Income

Rental operations continued to show steady growth in 2003. Rental income increased 13% to $17.1 million, from $15.2 million in 2002. This increase was almost entirely due to the rental of newly renovated suites and the acquisition of new properties in Ontario with higher average rents.

The Company achieved this performance despite significant market challenges. In 2003, lower interest rates created affordable housing for first-time buyers, thus increasing tenant vacancies. At the same time, funds from operations were adversely affected by higher operating costs.

The average rental rate per unit across Mainstreet's portfolio dropped marginally from $616 in 2002 to $614 in 2003.

During the year, the Company undertook an extensive renovation program to upgrade 356 units. This was the largest program carried out to date. Of 2,606 units, about 79% have been renovated to meet corporate standards and improve operating efficiencies. The remaining units will be renovated gradually over time at a cost of about $2.7 million.

Large-scale renovations affect the bottom line in the short-term, temporarily creating higher vacancy rates and lowering rental income, but provide long-term gains in shareholder value. As the renovations program is completed in 2004, future rental income is expected to steadily improve.

TOTAL RENTAL INCOME	2003	2002	% change
Rental revenue (000s)	$ **17,117**	$ 15,188	13
Weighted average number of units	**2,324**	2,053	13
Average rental rate per unit per month	$ **614**	$ 616	(0.3)
Weighted average square feet (000s)	**1,857**	1,653	12
Average rental rate per square foot per month	$ **0.77**	$ 0.77	0

ALBERTA	2003	2002	% change
Calgary			
Rental revenue (000s)	$ **7,874**	$ 8,210	(4)
Weighted average number of units	**997**	986	1
Average rental rate per unit per month	$ **658**	$ 694	(5)
Weighted average square feet (000s)	**768**	821	(6)
Average rental rate per square foot per month	$ **0.85**	$ 0.83	3
Edmonton/Red Deer			
Rental revenue (000s)	$ **7,141**	$ 6,428	11
Weighted average number of units	**1,053**	991	6
Average rental rate per unit per month	$ **565**	541	4
Weighted average square feet (000s)	**789**	741	6
Average rental rate per square foot per month	$ **0.75**	$ 0.72	4

BRITISH COLUMBIA	2003	2002	% change
Vancouver Lower Mainland			
Rental revenue (000s)	$ **1,336**	$ 550	143
Weighted average number of units	**204**	77	165
Average rental rate per unit per month	$ **546**	$ 595	(8)
Weighted average square feet (000s)	**245**	92	166
Average rental rate per square foot per month	$ **0.45**	$ 0.50	(10)

ONTARIO	2003	2002	% change
Greater Toronto Area			
Rental revenue (000s)	$ **766**	$ –	–
Weighted average number of units	**70**	–	–
Average rental rate per unit per month	$ **912**	$ –	–
Weighted average square feet (000s)	**141**	–	–
Average rental rate per square foot per month	$ **0.45**	$ –	–

Funds from Operations

A key performance measure of real estate companies is funds from operations. Mainstreet generates funds from operations from two sources: rental income from properties and the periodic sale of properties.

Funds from rental operations decreased by 22% from $3 million in 2002 to $2.3 million in 2003. This reduction was largely caused by units being unavailable for rent while undergoing extensive renovations. Other factors included rental incentives, higher operating costs and lower interest rates, which encouraged some tenants to purchase homes for the first time.

This decrease in funds from rental operations was offset by a property sale in Calgary. With this sale, the Company increased funds from operations 81% to $5.5 million, from $3.0 million in 2002.

FUNDS FROM OPERATIONS

($000s)	2003	2002	% change
After gains from property disposition	$ **5,451**	$ 3,016	81
Before gains from property disposition	$ **2,339**	$ 3,016	(22)

Operating Costs

Operating costs increased 42% to $6.3 million, from $4.4 million in 2002. When examined on a per unit per month basis, these costs rose from $179 to $225 over this period.

Higher natural gas (heating) prices, property taxes, maintenance costs and insurance all contributed to this increase. Also, because of changing market conditions and the launch of newly renovated suites, Mainstreet expanded advertising to attract tenants. Advertising and maintenance costs are based on tenant turnover and vary each year, depending on vacancy rates. In 2003, the Company's average tenant turnover rate was 63%, compared with 62% in 2002.

The increase in operating costs lowered the Company's net operating margin from 71% in 2002 to 63% in 2003.

As always, Mainstreet continues to closely monitor operating costs in its rental properties. For example, natural gas prices decreased in Alberta, one of the Company's key geographic markets, from an average gas price for the year of $6.38 per gigajoule to $5.23 per gigajoule in November 2003. Also, the Alberta government has announced a rebate program to help consumers with the increasing cost of natural gas, starting November 2003. Together, these developments should benefit operating costs next year.

PROPERTY OPERATING EXPENSES

	2003	2002	% change
Total (000s)	$ 6,272	$ 4,404	42
Per unit per month	225	179	26
Per square foot per month	$ 0.28	$ 0.22	27

General and Administrative Expenses

General and administration (G&A) expenses include the cost of corporate activities. These increased 28% from $1.3 million in 2002 to $1.6 million in 2003. Considered on a per unit per month basis, these expenses increased from $51 to $58 over the year.

The increase was mainly because of added costs to service the Company's portfolio and set up regional offices in Surrey, British Columbia, and Mississauga, Ontario, which provide platforms to expand business into new geographic markets. As rental units are acquired in these markets, G&A expenses, on a per unit basis, are expected to decline over the long term.

GENERAL AND ADMINISTRATIVE EXPENSES

	2003	2002	% change
Total (000s)	$ 1,607	$ 1,256	28
Per unit per month	58	51	13
Per square foot per month	$ 0.07	$ 0.06	14

Mortgage Financing

Using Canada Mortgage and Housing Corporation (CMHC) insurance enables Mainstreet to fix interest rates on loans at favourable rates for periods of between five and 10 years.

In 2003, $43 million in mortgage loans was converted to long-term CMHC-insured debt. As part of refinancing, the Company reduced the average interest rate on these loans to 4.87%, from 7.15% in 2002.

Financing costs on this borrowing stood at $7.4 million, a 13% increase over 2002 levels. This increase was the result of refinancing real estate assets to purchase new properties and fund ongoing property renovations. Mainstreet is able to refinance with higher debt because the financial value of its buildings has grown significantly through the Value Chain business philosophy. In keeping with this philosophy, the Company buys undervalued residential units and enhances their value through renovations and improved operating efficiencies.

Helping to offset increased financing costs was the negotiation of CMHC-insured mortgages at a lower average interest rate of 5.51%, compared with 6.57% in 2002.

Depreciation

Depreciation expenses increased 31% from $1.8 million in 2002 to $2.4 million in 2003. The increase was mainly due to the increased growth of the Company's property portfolio.

Acquisitions

The Company purchased 513 rental units in 2003, compared with 613 units in 2002. Together, the acquisitions added 364,000 square feet, bringing the total square footage under management to 2.1 million and increasing Mainstreet's portfolio by 14%.

The most significant acquisitions during the year included:

- a 104-apartment, 82,000-square foot complex in a core high-rise area of Mississauga, Ontario
- a 218-apartment, 178,000-square foot complex in an uptown high-rise area in Toronto

These expanded Mainstreet's business into the Greater Toronto Area and are expected to provide the company with greater growth opportunities going forward.

In its different markets, the Company identifies and acquires high potential rental units at below replacement cost. In the above cases, the average purchase prices per unit were $59,000 in Calgary and $76,000 in Toronto and Mississauga. These represented significant discounts to the estimated replacement costs.

ACQUISITIONS	Calgary	Mississauga	Toronto	Total
Suites (number)	191	104	218	513
Square feet (000s)	104	82	178	364
Total purchase prices (000s)	$ 11,350	$ 7,865	$ 16,683	$ 35,898
AVERAGE				
Price per square foot	$ 109	$ 96	$ 94	$ 99
Price per suite (000s)	$ 59	$ 76	$ 76	$ 70

Divestitures

Income is generated from the periodic sale of mature real estate properties. This allows the company to access additional equity for reinvestment in new acquisitions or property renovations. The selling price typically shows the unlocked value of the properties.

In 2003, Mainstreet sold a 188-unit in Calgary for $16.8 million, realizing a net gain of $3.8 million – or $20,200 per unit. The contribution from this sale to funds from operations was $0.34 per share. The annualized return on equity was 2,170%.

Capital Investment

Reinvesting in properties – the Company's capital assets – through renovations is a core part of Mainstreet's Value Chain business philosophy. These activities enable the Company to improve the attractiveness of properties to tenants, reduce operating costs and enhance long-term property values.

To keep pace with the many rental properties bought in 2002, the Company carried out a large renovations program in 2003, spending $3.4 million on renovations and property improvements. These improvements consisted of exterior upgrades such as new siding and insulation and interior upgrades such as carpet and paint, new appliances and energy-efficiency measures.

At year-end, there were 547 units in the Company's portfolio remaining to be renovated. The estimated cost of these activities is about $2.7 million.

The amount spent each year on renovations varies depending on the number of units purchased the previous year. Also, the Company continually monitors and adapts the pace of the renovations program to make sure it is consistent with changing market demand.

Long-Term Debt

Long-term debt consists mainly of low-rate, fixed-term mortgage financing. All amounts are secured by individual mortgages against the appropriate real estate assets. Largely based on the value of properties, this refinancing reflects the strength of Mainstreet's portfolio. The maturity dates for this debt are staged to lower the overall rate risk.

On September 30, 2003, mortgages payable were $129.6 million, compared with $103.7 million in the previous year. Mortgages payable increased largely as a result of new debt and the refinancing of existing debt. At year-end, about 80% of the Company's mortgages were CMHC-insured ($97 million), providing Mainstreet with interest rates lower than those conventionally available.

The Company has $6 million in long-term debt maturing in 2004. This will be refinanced through a long-term CMHC-insured loan.

MORTGAGE SCHEDULE
($000s)

	Floating Rate Debt	Fixed Rate	Total Mortgage
CMHC-insured	$ –	$ 97,211	$ 97,211
Non-CMHC-insured	26,015	6,389	32,404
Total	$ 26,015	$ 103,600	$ 129,615

FIXED RATE DEBT
($000s)

	Amount	Average Interest rate (%)
CMHC-insured	$ 97,211	5.51
Non-CMHC-insured	6,389	6.03
Total	$ 103,600	5.54

MORTGAGE MATURITY SCHEDULE
($000s)

	Balance Maturing	% of Debt Maturing	Weighted Average Rate on Expiry (%)
2004	$ 6,000	5	7.38
2005	15,688	12	5.66
2006	3,838	3	5.11
2007	30,918	24	5.56
2008	51,642	40	5.14
Subsequent	21,529	16	6.35
Total	$ 129,615	100	5.61

Liquidity and Capital Resources

In the normal course of business, cash flow is required to cover capital expenditures and future acquisitions. The Company funds these requirements with funds from operations and the refinancing of existing properties.

Funds from operations generated $5.5 million of cash flow after gains from property disposition, compared with $3 million in 2002. The Company also has an operating line of credit of $0.5 million. Mainstreet believes these resources will be sufficient to fund ongoing operational requirements.

Risk Management

Like other real estate companies, Mainstreet is exposed to different risks in the normal course of business that can affect financial performance. These risks include supply of new apartment buildings, tenant vacancies, interest rates and utility costs.

Supply Risk

The Company can be negatively affected by new supply of multi-family residential units in major market areas. Historically, this risk has been minimal because rental buildings trade at below replacement costs and industry economics do not support the construction of new rental units. In 2003, however, supply risk to the business increased as low interest rates encouraged some tenants to purchase homes for the first time.

Mainstreet is addressing this risk by enhancing customer satisfaction, diversifying its portfolio in different geographic markets in Canada, and maintaining its focus on affordable mid-tiered, mid-sized multi-family accommodation.

Vacancy Risk

The Company is subject to tenant vacancy risk, caused by low interest rates and new supply of multi-family residential units. When vacancies are high, rental income and cash flow decrease.

Mainstreet's strategy for vacancy risk includes the approaches described under supply risk. In addition, the Company carries out advertising and offers newly renovated suites to attract tenants.

Interest Risk

Mainstreet's business is exposed to the risk of rising interest rate environments. The Company addresses this risk by creating a balanced mortgage portfolio with varying terms to maturity and by refinancing long-term debt, wherever possible, on more advantageous terms. This includes reducing the fixed debt load by converting significant sums of mortgage financing into longer-term, less-expensive CMHC-insured debt.

Utility Risk

The business is also exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. Mainstreet closely monitors gas prices and looks for long-term contracts for these prices, wherever possible. In addition, installing energy-saving measures in all buildings through renovations is a key priority for the Company.

Changes in Depreciation Method

Effective October 1, 2003, as a result of the implementation of Section 1100 of the Handbook of the Canadian Institute of Chartered Accountants (CICA), the use of the sinking fund method of depreciation for real estate properties cannot be supported by a primary source of Generally Accepted Accounting Principles (GAAP). As such, the Company will adopt the straight line method of depreciation for its real estate properties.

Management has estimated that the impact of this change in depreciation methods, from the sinking fund to the straight-line method, will be a decrease in net income[1] of about $1.6 million in 2004. This change will not affect Mainstreet's funds from operations, a key performance indicator for real estate companies.

1. According to Generally Accepted Accounting Principles.

Corporate Governance

Sound corporate governance promotes and protects the interests of the Company's shareholders. Governance is the responsibility of Mainstreet's Board of Directors and its associated committees. The Board is structured and acts in accord with the Toronto Stock Exchange (TSX) guidelines for effective corporate governance.

The Board is responsible for the proper stewardship of the Company and, therefore, provides strategic direction for management's activities, approves major business decisions and monitors the Company's performance. More specifically, its main objectives are to:

- monitor the Company's governance practices and implement changes, as needed
- implement a strategic planning process
- ensure that the Company's business risks are properly identified and managed
- provide for responsible succession planning
- ensure that there is an adequate system of internal controls to safeguard the corporation's assets
- provide for comprehensive financial reporting
- establish annual corporate objectives for management
- develop and institute a communications policy for the Company

The Board, which met seven times in 2003, monitors performance against these objectives and strives to identify the most effective ways of achieving them. The Company is firmly committed to principled and responsible conduct by its officers.

Board Committees

Mainstreet has an audit committee and an executive committee. Because of the small size of the Corporation, the Board usually establishes all policies and assumes responsibility for all matters, except those involving audit issues, relating to compliance with the TSX guidelines. Specifically, the Board is responsible for the selection and nomination of new directors and for assessing the effectiveness and contribution of individual directors. The Board also reviews and establishes directors' compensation. The Board has the authority to authorize an individual director to engage an outside advisor at the Corporation's expense, under appropriate circumstances.

In line with the TSX guidelines, the audit committee includes only outside directors. The guidelines define an outside director as "one free of any interest and any business or other relationships, other than interests and relationships arising from shareholdings, which could, or could reasonably be perceived, to materially interfere with the director's ability to act in the best interests of the corporation."

Committee members, who are well versed in financial matters, work with management and external auditors to disclose and review financial issues and bring pertinent matters before the Board for consideration. The committee meets with the financial officer and independent auditors to review financing, investments, risk management, financial reporting, the Company's annual and quarterly reports, and controls, procedures and plans. Chaired by Lawrence Tapp, this committee met four times during the year.

Consisting of inside directors, the executive committee meets periodically and is responsible for approving acquisitions exceeding the financial authority of the CEO. The CEO's authority to commit the Company is reviewed and set each year by the Board.

Board Composition

The current Board consists of six directors: Rowland Fleming (chair), Joe Amantea, Frank Boyd, Darrell Cook, Lawrence Tapp and Bob Dhillon. There are three inside directors, including the President and CEO, and three outside directors, as defined by TSX guidelines.

Outlook

Preparing for 2004, Mainstreet is focused on three primary objectives: to take advantage of changing market conditions, increase geographic diversification and consolidate long-term financing.

Market Conditions

After three years of strong growth, the demand for rental properties in the Company's core market areas weakened in 2003. Interest rates dropped to their lowest levels in 40 years and oversupply of new condominium apartments encouraged some tenants to purchase homes for the first time. These factors, together with higher operating expenses, contributed to lower rental income and funds from operations in all of Canada's major cities.

Mainstreet felt this ripple effect but less directly than operators of higher-priced rental properties. The Company's portfolio of affordable mid-sized, mid-tiered properties continued to generate stable cash flow.

Based on historic trends and industry statistics, management expects market conditions to improve in 2004. For next year, CMHC forecasts that average rental rates will increase by 2.5% in Calgary, 3% in Edmonton, 2% in Vancouver and remain relatively constant in Toronto. As higher rates come into play, rental income in these markets should improve over the next 12 to 24 months.

Mainstreet is well positioned to take advantage of this changing business environment. In 2003, the Company carried out the largest renovations program in its history. To date, 79% of the Company's portfolio has been renovated. These efforts will help to enhance the appeal of properties to tenants, reduce operating expenses and improve the long-term value of its portfolio.

Geographic Diversification

Mainstreet's portfolio is concentrated in four major urban centres: Calgary, Edmonton, Vancouver lower mainland and the Greater Toronto Area. These continue to be among the best Canadian areas for strong and diverse economies, population growth, capital appreciation and upswing potential on rents – all requisites for growth in the real estate business.

The Company continues to be anchored in Alberta, which accounts for 80% of its units. This province leads Canada in economic and job growth. And the Conference Board of Canada projects that Calgary and Edmonton – the Company's two key Alberta markets – will be among the top urban centres for economic growth next year. These cities are expected to achieve GDP growth of 4.4% and 4.1% in 2004.

At the same time, Mainstreet is expanding into new geographic markets. In 2003, the Company purchased its first properties in the Greater Toronto Area and continued to explore new opportunities to increase its presence in Vancouver lower mainland. According to the Conference Board, the Vancouver region and the Greater Toronto Area will achieve GDP growth of 3.4% and 3.5%. By adding units in these markets that fit corporate criteria, the Company plans to decrease the Alberta share of its portfolio.

Together, these efforts will help to further diversify and rebalance Mainstreet's portfolio in some of the most dynamic urban markets in Canada.

Long-Term Financing

The current interest rates continue to be low. To take advantage of this interest rate environment, Mainstreet plans, wherever possible, to consolidate long-term financing by converting mortgage loans into CMHC-insured debt.

Board of Directors

Rowland Fleming (Chair), Business Executive, Mississauga, ON

Mr. Fleming is a seasoned business executive with more than 30 years experience in the financial services industry. He currently serves on a number of Boards of Directors and is also an Adjunct Professor with The Richard Ivey School of Business at The University of Western Ontario. His distinguished career includes positions as President and CEO of the Toronto Stock Exchange (1994-99), President and CEO of National Trust Company and of the Dominion of Canada General Insurance Company, and Executive Vice President with the Bank of Nova Scotia.

Joe Amantea, Senior Partner, Warren Tettensor law firm, Calgary, AB

Mr. Amantea concentrates on real estate, construction law, foreclosures and corporate and commercial law dealing mainly with small and medium-sized private companies. He acts as corporate counsel on behalf of Mainstreet.

Frank Boyd, President & CEO, Apex Limited Partnership, Calgary, AB

Mr. Boyd brings a wealth of practical knowledge in the land development and condominium industries. He is President and CEO of Apex Limited Partnership, a leading Calgary-based real estate development company operating within select Canadian markets.

Darrell Cook, President & CEO, Gibraltar Mortgage Ltd., Calgary, AB

Mr. Cook has been involved in real estate acquisition and development for more than 25 years. He is a Fellow of the Certified General Accountants Association of Canada and holds an MBA degree from the University of Calgary.

Bob Dhillon, President & CEO, Mainstreet Equity Corp., Calgary, AB

With more than 20 years of experience in the real estate industry, Mr. Dhillon has purchased and sold in excess of $150 million of real estate on his personal account. He earned an MBA degree from the Richard Ivey School of Business at the University of Western Ontario.

Lawrence Tapp, Chairman of the Board, Tapp Technologies, Langley, BC

In 1985 Mr. Tapp initiated the world's largest leveraged buy-out outside of the U.S. in a $552-million deal that created Lawson Mardon Group Limited. As CEO, he took Lawson Mardon public in one of the largest internationally listed share offerings by a Canadian company, and transformed it from a disparate group of stand-alone companies into a single, highly successful entity. Additionally, between 1995 and 2003, Mr. Tapp was the Dean of the Richard Ivey Business School at the University of Western Ontario in London, ON.

Management's Responsibility for Financial Reporting

The management of Mainstreet Equity Corp. is responsible for the preparation and content of the financial statements. The financial statements have been prepared in accordance with generally accepted accounting principles.

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are property authorized, financial reporting responsibilities are met and assets of the corporation are safeguarded against theft.

The financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with generally accepted auditing standards. The Audit Committee recommended their approval of the statements to the Board of Directors. The Board of Directors have approved the financial statements on the recommendation of the Audit Committee.

Darrell Cook
Director

Joe Amantea
Director

Auditors' Report

To the Shareholders of Mainstreet Equity Corp.:

We have audited the balance sheets of Mainstreet Equity Corp. as at September 30, 2003 and 2002 and the statements of income and retained earnings and cash flows for the years ended September 30, 2003 and September 30, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2003 and 2002 and the results of its operations and its cash flows for the years ended September 30, 2003 and September 30, 2002 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
November 14, 2003

Chartered Accountants

Balance Sheets

($000s)

As at	**September 30, 2003**	September 30, 2002
ASSETS		
Real estate properties (NOTE 3)	**$ 135,501**	$ 110,986
Restricted cash	**766**	803
Cash	**2,901**	–
Other assets (NOTE 4)	**1,171**	1,117
Deferred charges	**2,769**	1,711
	$ 143,108	$ 114,617
LIABILITIES		
Mortgages payable (NOTE 5)	**$ 129,615**	$ 103,741
Bank indebtedness	**–**	177
Debenture(s) (NOTE 6)	**1,000**	2,000
Accounts payable	**1,542**	965
Refundable security deposits	**766**	803
Future income taxes (NOTE 7)	**2,279**	1,631
	135,202	109,317
SHAREHOLDERS' EQUITY		
Share capital (NOTE 8)	**1,900**	1,869
Retained earnings	**6,006**	3,431
	7,906	5,300
	$ 143,108	$ 114,617

Approved on behalf of the Board

Director

Director

See accompanying notes to the financial statements

Statements of Income and Retained Earnings

For the years ended September 30, 2003 and September 30, 2002

($000s, except per share amounts)

	September 30, 2003	September 30, 2002
Revenue		
Rental income	**$ 17,117**	$ 15,188
Sale of properties held for resale	**16,800**	–
Interest income	**93**	50
	34,010	15,238
Expenses		
Property operating expenses	**6,272**	4,404
Utility rebate (NOTE 14)	**(21)**	(299)
Cost of sales of properties held for resale	**12,985**	–
General and administrative expenses	**1,607**	1,256
Financing costs	**7,407**	6,545
Depreciation	**2,378**	1,812
	30,628	13,718
Gain on early redemption of debenture (NOTE 6)	**150**	–
Earnings before income taxes	**3,532**	1,520
Income taxes (NOTE 7)		
– current	**309**	316
– future	**648**	514
	957	830
Net earnings	**2,575**	690
Retained earnings, beginning of year	**3,431**	2,741
Retained earnings, end of year	**$ 6,006**	$ 3,431
Earnings per share (NOTE 10)		
– basic	**$ 0.28**	$ 0.08
– diluted	**$ 0.28**	$ 0.08

See accompanying notes to the financial statements

Statements of Cash Flows

For the years ended September 30, 2003 and September 30, 2002

($000s, except per share amounts)

	September 30, 2003	September 30, 2002
Cash obtained from (used in):		
Operating activities		
Net earnings	$ 2,575	$ 690
Items not affecting cash		
Gain on early redemption of debenture	(150)	–
Depreciation	2,378	1,812
Future income tax	648	514
Funds from operations	5,451	3,016
Net change in non-cash operating balances	523	(186)
Decrease in properties held for resale	12,985	–
Cash flow from operating activities	18,959	2,830
Financing activities		
Financing of real estate properties	79,450	53,594
Repayment of secured debts on revenue producing properties, and other debts	(59,485)	(37,324)
Issue of shares	31	–
Redemption of debenture	(850)	–
Deferred charges (net of amortization)	(1,058)	(919)
	18,088	15,351
Investing activities		
Purchase of and addition to real estate properties	(33,969)	(18,470)
Increase (decrease) in cash and cash equivalents	3,078	(289)
(Bank indebtedness) cash and cash equivalents, beginning of year	(177)	112
Cash and cash equivalents (bank indebtedness), end of year	$ 2,901	$ (177)
Cash and cash equivalents (bank indebtedness) comprise of:		
Cash (bank indebtedness)	$ 192	$ (237)
Short-term deposits	2,709	60
	$ 2,901	$ (177)
Income taxes paid	$ 307	$ 188
Interest paid	$ 6,656	$ 5,909

See accompanying notes to the financial statements

Notes to Financial Statements

For the years ended September 30, 2003 and September 30, 2002
(Tabular amounts in thousands of dollars)

1. Significant accounting policies

GENERAL

Mainstreet Equity Corp. (the "Corporation") is a real estate corporation specializing in the acquisition and rental of multiple unit residential buildings.

BASIS OF PRESENTATION

Effective October 1, 2002, 396249 Alberta Ltd., a wholly owned subsidiary was amalgamated into the Corporation. This subsidiary was previously accounted for on a consolidated basis. These financial statements have been prepared by management in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies and in accordance with Canadian generally accepted accounting principles.

REVENUE RECOGNITION

Revenue from a rental property is recognized when a tenant commences occupancy of a rental suite and rent is due. The Corporation retains all of the benefits and risks of ownership of its rental properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenue includes rent, parking and other sundry revenues.

Revenue on property held for development and resale is recognized when all substantial conditions of the purchase agreement have been met, a minimum 15% cash deposit has been received, and collection of the remaining balance is reasonably assured.

REVENUE PRODUCING REAL ESTATE PROPERTIES

Revenue producing real estate properties held as ongoing investments are stated at the lower of cost less accumulated amortization, or net recoverable amount. Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. Major capital improvements and replacements are capitalized and amortized over terms appropriate to the expenditure.

The net recoverable amount represents the undiscounted estimated future net cash flows expected to be received from the ongoing use of the property plus its residual value. To arrive at this amount, the Corporation projects the cash flows over a maximum of 10 years and includes the proceeds from the estimated residual sale at the end of that period. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

PROPERTIES HELD FOR RESALE

Periodically, the Corporation makes an assessment of its portfolio and determines whether such properties should be retained or sold in order to redeploy capital. When a determination is made to sell a property, it is transferred to properties held for sale. The Corporation capitalizes property taxes, interest charges and other direct costs, net of any revenue, to properties held for sale. The properties are recorded at the lower of cost or net realizable value.

AMORTIZATION

Revenue producing real estate properties are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Buildings	5% – Sinking fund, 40 years maximum
Building improvements	20% – Declining balance
Equipment and appliances	20% – Declining balance
Painting	40% – Declining balance
Carpets	30% – Declining balance
Furniture and fixtures	20% – Declining balance
Computer equipment	30% – Declining balance

DEFERRED CHARGES

Deferred charges include mortgage financing costs and associated legal and appraisal fees, CMHC fees and prepaid interest. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Costs of financing are amortized over the terms of the respective mortgages.

STOCK OPTION PLAN

The Corporation has a stock option plan which is described in Note 9. No compensation expense is recognized for the plan when the stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

RISK MANAGEMENT AND FAIR VALUE

a) Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling $6,000,000 are subject to renewal in the next year. Increases in the interest rate may adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages.

b) Credit risk

The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting an in-depth credit assessment of all tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk.

c) Fair value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates. The significant financial instruments of the Corporation and their carrying values as of September 30, 2003 are as follows:

	2003		2002	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Mortgages payable	$ 129,615	$ 133,719	$ 103,741	$ 105,092
Debentures	$ 1,000	$ 1,000	$ 2,000	$ 2,000

EARNINGS PER SHARE

Basic net earnings per share is calculated based on the weighted average number of shares outstanding. Fully diluted earnings per share reflect the dilutive effect of the exercise of the options outstanding as at the balance sheet date. The dilutive effect of outstanding share purchase options are computed using the "treasury stock" method whereby the proceeds that would be received from the exercise of options are assumed to be used to repurchase outstanding shares of the Corporation.

USE OF ESTIMATES

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions which can effect the reported amount of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Assumptions underlying estimates of net recoverable amounts and asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Actual results may vary from those estimates.

2. Changes in accounting policies

DISCLOSURE OF GUARANTEES

Effective January 1, 2003, the Corporation adopted Accounting Guideline 14 (AcG-14), Disclosure of Guarantees. This guideline provides assistance regarding the identification of guarantees and requires a guarantor to disclose the significant details of guarantees that have been given, regardless of whether it will have to make payments under the guarantees. Please refer to Note 11 for further disclosure on the Corporation's guarantees.

STOCK-BASED COMPENSATION PLAN

Effective January 1, 2002, the Corporation adopted section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (CICA) with respect to the accounting and disclosure of stock based compensation, which recommends that awards to employees be valued using a fair value method of accounting. These new rules also require that companies account for stock appreciation rights ("SARs") and similar awards to be settled in cash or other assets, by measuring compensation expenses on an ongoing basis, as the amount by which the quoted market price exceeds the exercise price at each measurement date.

The Corporation has elected to account for stock options by measuring compensation expenses as the excess, if any, of the quoted market value of the stock at the date of grant over the exercise price.

Under CICA 3870, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as Black- Scholes model, as if the fair value method of accounting had been used. These new rules do not apply to pre-existing awards except for those awards that call for settlement in cash or other assets.

3. Real estate properties

	2003			2002		
	Cost	Accum. Depre.	Net Book Value	Cost	Accum. Depre.	Net Book Value
Land	$ 34,900	$ –	$ 34,900	$ 28,082	$ –	$ 28,082
Buildings	96,068	2,136	93,932	78,887	1,631	77,256
Building improvement	10,122	3,638	6,484	7,541	2,084	5,457
Furniture and fixtures	358	173	185	313	122	191
	$ 141,448	$ 5,947	$ 135,501	$ 114,823	$ 3,837	$ 110,986

ACQUISITIONS

	2003	2002
Mortgages arranged	$ 28,733	$ 9,993
Debts assumed	2,772	15,838
Cash paid	4,393	4,157
Total purchase price	$ 35,898	$ 29,988
Units acquired	513	613

DISPOSITIONS

	2003	2002
Net cash received	$ 3,831	$ –
Settlement of mortgages	12,969	–
Total proceeds	16,800	–
Net book value	12,985	–
Gain on sales	$ 3,815	$ –
Units sold	188	–

4. Other assets

	2003	2002
Accounts receivable	$ 84	$ 66
Other receivable	522	939
Deferred rent concession	258	–
Deposits and prepayments	307	112
	$ 1,171	$ 1,117

5. Mortgages payable

Mortgages payable bearing interest at a weighted average rate of 5.61% (2002 – 6.65%) per annum, are payable in monthly principal and interest installments totalling $793,000 (2002 – $715,000), maturing from 2004 to 2010 and are secured by specific charges against specific properties and several personal guarantees of certain directors to the extent of $28,410,000 (2002 – $31,547,000), having a carrying value of $135,501,000 (2002 – $110,986,000).

September 30, 2003	September 30, 2002
$ 129,615	$ 103,741

Estimated principal payments required to retire the mortgage obligations are as follows:

Year	Amount
2004	$ 8,974
2005	18,628
2006	5,634
2007	29,599
2008	44,911
Subsequent	21,869
	$ 129,615

6. Debentures

The debenture maturing in May 2006 and bearing interest at a rate of 10% per annum, is secured by a floating charge on all assets, and is subordinate to all existing mortgage loans.

During the year, the Corporation redeemed the November 2005 debenture of $1 million for the discounted amount of $850,000. The redemption took place on August 18, 2003.

7. Income taxes

The Corporation has non – capital losses of $699,000 available to reduce future taxable income, the benefit of which has been accounted for in computing future income taxes. The losses will expire in 2009.

The provision for income tax differs from the results which would be obtained by applying the combined federal and provincial income tax rate to net income before taxes. This difference results from the following:

	September 30, 2003	September 30, 2002
Statutory tax rate (%)	36.91	39.12
Computed expected tax	$ 1,304	$ 594
Non-taxable portion of capital gain	(575)	–
Others	(49)	92
Adjustment for change in statutory tax rate	(32)	(84)
Large corporation tax	309	228
Provision for income tax	$ 957	$ 830

The future income tax liability is comprised of the following:

	September 30, 2003	September 30, 2002
Tax assets related to operating losses	$ (243)	$ (317)
Tax liabilities related to differences in tax and book basis	2,522	1,948
	$ 2,279	$ 1,631

8. Share capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	Number of Shares	Amount
Issued and outstanding, October 1, 2002	9,033,333	$ 1,869
Issued pursuant to exercise of options	155,000	31
Issued and outstanding, September 30, 2003	9,188,333	$ 1,900

During the year ended September 30, 2003, there were no stock options granted by the Corporation.

9. Stock option plan

Under the 2000 stock option plan, the Corporation may grant options to its directors, employees, consultants, subsidiary and affiliated companies for up to 900,000 shares of common stock. The exercise price of the option equals the market price of the Corporation's stock on the date of grant.

A summary of the Corporation's stock option plan as of September 30, 2003 and 2002, and changes during the years ended on those dates is presented below:

	2003		2002	
Stock option	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	275,000	$ 1.78	275,000	$ 1.78
Granted	–	–	–	–
Exercised	(155,000)	0.20	–	–
Outstanding, end of year	120,000	$ 3.82	275,000	$ 1.78
Options exercisable, end of year	120,000		275,000	

The following table summarizes information about stock options outstanding at September 30, 2003 and 2002:

	2003		2002	
Exercise Prices	Number of Shares Outstanding at September 30, 2003	Weighted Average Remaining Contractual Life	Number of Shares Outstanding at September 30, 2002	Weighted Average Remaining Contractual Life
$0.20	–	–	155,000	0.58 years
$3.00	50,000	1.17 years	50,000	2.17 years
$4.15	50,000	1.83 years	50,000	2.83 years
$5.00	20,000	2.08 years	20,000	3.08 years
	120,000	1.60 years	275,000	1.46 years

All stock options are fully vested.

10. Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding during the period.

The treasury stock method of calculating diluted earnings per share is used.

The following table sets forth the computation of basic and diluted earnings per share:

	September 30, 2003	September 30, 2002
Numerator		
Net income	$ 2,575	$ 690
Denominator		
– Denominator for basic earnings per share		
Weighted average shares	9,131,429	9,033,333
Effect of diluted earnings per share	2,519	159,427
– Denominator for diluted earnings per share	9,133,948	9,192,760
Basic earnings per share	$ 0.28	$ 0.08
Diluted earnings per share	$ 0.28	$ 0.08

11. Guarantees

In the normal course of business, the Corporation enters into various agreements that may contain features that meet the AcG-14 definition of a guarantee. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

In the ordinary course of business, the Corporation provides indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements require the Corporation to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Corporation has not made any significant payments under such indemnifications and no amount has been accrued in the financial statements with respect to these indemnification commitments.

12. Related party transactions

a) The debenture was issued to a company of which a Mainstreet director is a director and a shareholder. This transaction was completed with the same terms and conditions as those issued to third parties for the existing debenture.

b) Consulting fees amounting to $30,700 (2002 – $17,500) were paid to three directors of the company during the year.

c) The President and Chief Executive Officer receives no compensation for his services, rather, he receives commission at commercial rates in his capacity as licensed broker for property transactions conducted by the Corporation. The commission received during the year amounted to $103,000 (2002 – $215,000).

13. Banking Facilities

The Corporation has an operating line of credit of $500,000. carrying interest at prime rate. As at September 30, 2003, no amount has been drawn on this line of credit (2002 — Nil). General security agreement with charges against three specific properties, demand debenture in the amount of $1,200,000 and assignment of rents are given as collateral for this line of credit.

14. Utility rebate

As of Match 2, 2002 Atco Gas, the transporter of all natural gas in Alberta, distributed a non-recurring rebate to the Corporation in an amount of $221,000. The Alberta Energy & Utility Board instructed Atco to rebate a portion of the sale proceeds of the Viking Kinselle producing assets, to Atco North customers in the form of a one time rebate. The rebate was distributed to all Atco North customers based on historical usage, at a rate of $3.325/GJ. The balance of the remaining rebate for the year ended September 30, 2002 represented one time rebates given by the Alberta Government. There were no such rebates issued in 2003

15. Segmented information

The Corporation specialized in multi-family residential housing and operates primarily within one business segment in three provinces located in Canada. The following summary presents segmented financial information for the Corporation's operations by geographic location:

	September 30, 2003	September 30, 2002
Alberta		
Rental income	$ 15,015	$ 14,638
Operating expenses	5,343	4,233
Net Operating income	9,672	10,405
Sale of properties held for resale	16,800	–
Cost of properties held for resale	12,985	–
Gain on sale of properties held for resale	3,815	–
Identifiable assets and liabilities		
Real estate properties	98,068	99,127
Mortgages payable	$ 97,190	$ 93,495
British Columbia		
Rental income	$ 1,336	$ 550
Operating expenses	594	171
Net Operating income	742	379
Identifiable assets and liabilities		
Real estate properties	12,268	11,859
Mortgages payable	$ 11,131	$ 10,246
Ontario		
Rental income	$ 766	$ –
Operating expenses	335	–
Net Operating income	431	–
Identifiable assets and liabilities		
Real estate properties	25,165	–
Mortgages payable	$ 21,294	$ –
Total		
Rental income	$ 17,117	$ 15,188
Operating expenses	6,272	4,404
Net Operating income	10,845	10,784
Sale of properties held for resale	16,800	–
Cost of properties held for resale	12,985	–
Gain on sale of properties held for resale	3,815	–
Identifiable assets and liabilities		
Real estate properties	135,501	110,986
Mortgages payable	$ 129,615	$ 103,741

Corporate Information

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Joe Amantea, Secretary
Calgary, Alberta

Johnny Lam, CFO
Calgary, Alberta

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Rowland Fleming, Chair, Mississauga, Ontario

Joe Amantea, Calgary, Alberta

Frank Boyd, Calgary, Alberta

Darrell Cook, Calgary, Alberta

Bob Dhillon, Calgary, Alberta

Lawrence Tapp, Langley, British Columbia

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EXECUTIVE COMMITTEE
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Joe Amantea, Calgary, Alberta

Darrell Cook, Calgary, Alberta

AUDIT COMMITTEE
Lawrence Tapp, Chair, Langley, British Columbia

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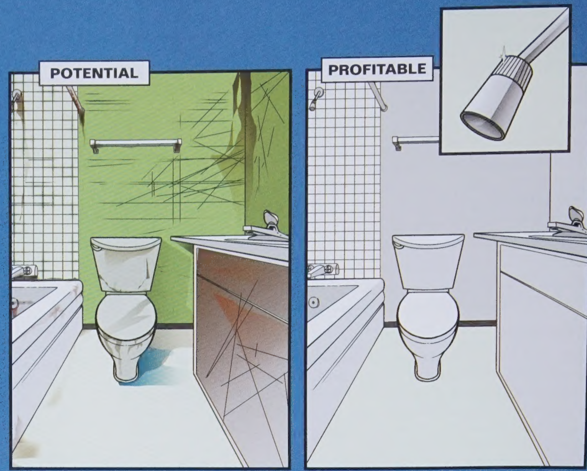

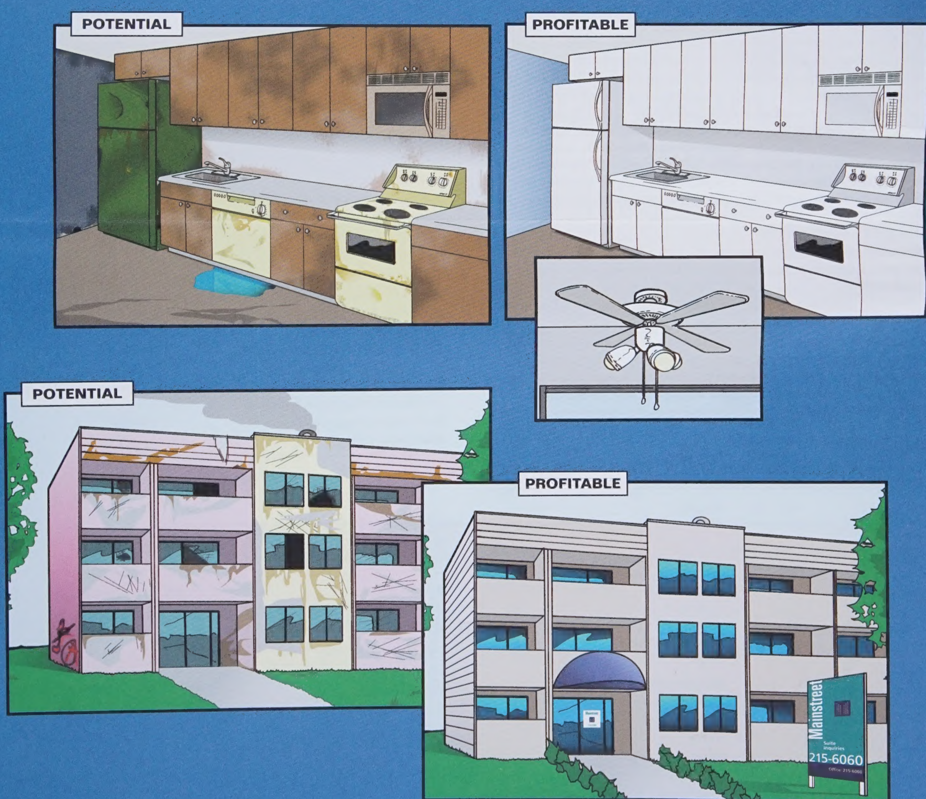

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